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**IMPROVING THE EFFICIENCY OF THE
DEFENSE INVESTIGATIVE SERVICE
CREDIT REPORT ACQUISITION PROCESS**

Howard William Timm

May 1990

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**DEFENSE
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**Improving the Efficiency of the
Defense Investigative Service
Credit Report Acquisition Process**

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Preface

Credit is an adjudicative criterion that dates to the 1953 Executive Order on personnel security. That individuals be financially sound is one of the basic tenets of establishing an individual's trustworthiness and ability to possess a security clearance. Today, credit reports are purchased for the Defense Investigative Service (DIS) as part of its process of conducting Personnel Security Investigations.

The value of credit history reports was detailed by DoD investigative personnel in 1989. Individuals attending a PERSEREC-sponsored workshop commented that credit history reports were among the best sources of information to evaluate a person being considered for a security clearance.

PERSEREC research into issues of credit and financial information in personnel security began in 1986, when our original research agenda was developed. Within the last 12 months we have elevated the financial and credit issue area to one of our four primary functional areas of research.

This report delineates procedures by which DIS can make the credit report buying process more efficient. The report is the first of many that will focus specifically on issues related to credit history reports. Each of these reports will provide the policy maker with the materials to make informed policy decisions.

Roger Denk
Director



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Several factors contributed to the discovery of ways to increase the efficiency of the credit report acquisition process used by the Defense Investigative Service (DIS). Without question, the main factor was the emergence of an informal interagency problem-solving team that worked together with the encouragement and support of their superiors. Jim Carnaggio at the Personnel Investigations Center (PIC) repeatedly went out of his way to provide useful information and offered numerous valuable suggestions. Barbara Melnick at DIS suggested that the Defense Personnel Security Research and Education Center (PERSEREC) look into whether it was actually necessary to purchase additional credit reports for each name that a person had previously used (e.g., maiden name, given name, etc.). It was this avenue of research that led to many of the proposed recommendations. She also supplied other beneficial information and suggestions throughout the entire project. John Goral at the Defense Manpower Data Center (DMDC) and Kent Crawford at PERSEREC had gathered the data used in this study and set it up in a manner that lent itself well to the analyses that were conducted. They also provided valuable suggestions and insights throughout the project. Peter Nelson, Assistant for Personnel Security in the Office of the Deputy Under Secretary of Defense for Security Policy (ODUSD(SP)), ardently encouraged PERSEREC and DMDC to engage in credit research, which stands as a testament to his leadership and foresight in this sphere. Chris Fitz, a BDM contractor working at PERSEREC, demonstrated his computer proficiency during the data entry and analysis phases. Roger Denk (PERSEREC), Barbara Knox and Tony Stoltz (DIS), Bill Hughes (PIC), and Helmut Hawkins (ODUSD(SP)) exhibited their ability to foster a climate ripe for innovation by giving their subordinates the necessary support and freedom to delve into this problem.

When representatives of CBM, the contract firm that purchases credit reports from the national credit vendors for DIS, were approached by PERSEREC concerning the potential impact of making certain proposed changes, their response was exceptionally positive. They assembled an internal task force, conducted some preliminary analyses, and within a few weeks reported that by modifying their acquisition process they could provide credit reports on more people, with no loss of effectiveness, for the same funds that they were currently receiving from DIS. On 20 March 1990 they implemented changes which they have reported will result in *increasing* the amount of credit information that is obtained and *decreasing* the per person costs charged to DIS (see Appendix A). Thus, they joined us in our partnership for enhancing the effectiveness and efficiency of the DIS credit acquisition process.

IMPROVING THE EFFICIENCY OF THE DEFENSE INVESTIGATIVE SERVICE CREDIT REPORT ACQUISITION PROCESS

**Prepared by
Howard William Timm**

Executive Summary

The Defense Personnel Security Research and Education Center (PERSEREC) was asked by the Office of the Deputy Under Secretary of Defense for Security Policy and the Defense Investigative Service (DIS) to help find a more efficient and effective manner for DIS to acquire credit reports. After examining the procedures used and the types of outputs obtained, the focus of the study was redirected to search for procedures that would reduce the level of redundant credit information for which DIS was paying.

Based upon an analysis of the credit reports that DIS received on a sample of 1,912 people being considered for Department of Defense (DoD) security clearances, it was discovered that 34% of all credit reports purchased by DIS could be eliminated if only one national credit report were purchased per person from the vendor(s) involved. For example, instead of purchasing two or more credit reports from TRW on the same person, only one report would be purchased from that firm. Virtually all commercial lenders request only one credit report per person from any given vendor when they are conducting credit checks. A savings of the magnitude forecasted would enable DIS to purchase credit reports on 52% more people for the same amount that is currently being spent. The level of savings could be increased to almost 50% by combining the aforementioned change with a modification proposed for the vendor selection process, doubling the number of credit reports that could be purchased for the same funds.

Although most of the information obtained from more than one credit report per person from the same vendor duplicates that obtained in the subject's first report, in some cases additional information is acquired. If it is deemed essential to obtain no less information than DIS is currently receiving, it is still possible to reduce significantly the amount of redundant credit reports for which DIS is paying. Two alternative methods that would meet those requirements are presented in the recommendation section of this paper. Both alternatives involve altering the computer programs that are used to acquire credit histories.

The first alternative submitted for consideration was implemented in March 1990 and reduces redundancy by making better use of a credit report acquisition feature that

enables prior addresses to be used along with the person's current address during the vendor's credit file search procedure. Under the system that was used prior to this study, each address included in the credit search that did not fall under the territory of a bureau that had already been queried for that subject was listed as a current address on a separate credit inquiry request. This was despite the fact that the vendors permitted one or two additional addresses to be included on every inquiry request, which are given equal consideration during the file search procedure. This is analogous to someone repeatedly paying full price for the same item at a store when that individual could buy one and receive one or two identical items for free.

As a consequence of being shown the preliminary findings of this study and of being asked by Barbara Melnick at DIS and us why certain anomalies were occurring in the data collected for this study, CBM (the contract firm that purchases the credit reports for DIS) assembled an internal task force, conducted some preliminary analyses confirming the utility of implementing the first alternative, and discovered certain weaknesses in their computer programs that they reported were restricting the amount of data they were receiving from the credit vendors. On 20 March 1990 they corrected those deficiencies and implemented the suggested modification, which they have indicated will result in *increasing* the amount of credit information that is obtained on people receiving credit checks in conjunction with DoD security clearance investigations and *decreasing* the per person costs that they charge DIS. Based upon an analysis of the sample examined in this study, it is estimated that these changes alone should result in DIS saving approximately 14.5% of their entire credit acquisition budget.

The second alternative proposed would reduce redundancy through use of an interactive purchasing decision component. Instead of making multiple credit report request submissions indiscriminately, additional submissions to the same vendor for the same person could be limited to those situations in which either an earlier credit report or an earlier credit inquiry has not significantly reduced the possibility of obtaining additional information. For example, if all of the current and former addresses to be checked by DIS are listed on the first credit report received, it is reasonable to assume that most if not all of the credit information pertinent to when the subject lived at those addresses is contained within that first report.

It is anticipated that over the next 4 1/2 years the proposed changes should result in between \$600,000 to \$5,000,000 in savings depending upon which combination of the proposed approaches is taken and the size of the DIS budget for acquiring credit histories during that period. Those figures do not include the potential savings to Office of Personnel Management that purchases approximately 167,000 credit reports each year using the same system and contractor as DIS.

Consideration should be given to using part of the resulting savings from the implementation of one or more of the proposed changes to initiate credit checks in certain other segments of the DoD cleared population. Among those cleared segments

that appear to be in greatest need of additional credit checks are 1) people who are being considered for a DoD Secret level clearance that does not already require a credit check¹, 2) people whose initial credit check failed to disclose any credit information (i.e., conducting second credit checks two to three years later, after their employment with the DoD or one of its contractors has given them more of a chance to obtain and use credit), 3) people holding Secret level clearances who are not already receiving periodic reinvestigations, and 4) people who hold especially sensitive positions or whose background warrants annual or intermediate² (e.g., every 2 1/2 years, as opposed to every 5 years) continuing assessment credit checks. Other recommended uses for the savings include implementing certain labor savings enhancements within the credit report acquisition and analysis system, such as automating certain routine credit related decisions, having the contractor provide the reports of credit (ROCs), and automatically receiving the addresses of creditors when delinquent accounts are identified in order to reduce the amount of time it takes DIS to process financial issue cases.

¹If implemented, the Defense national agency check with written inquiries (DNACI) would include a credit check for those being considered for certain positions requiring only Secret clearances.

²A more economical continuing assessment approach would be to utilize credit vendor services that continuously monitor the credit histories of a specified population and notify the designated office whenever one of the members of that population has credit problems that reach a specified level. This type of service costs only a fraction of running traditional credit reports on everyone included in the specified population. TRW calls their automated continuing assessment system "ACT;" Trans Union calls their "watch."

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Background

The Role of Credit Assessment in Personnel Security

Currently, the role of credit assessment in personnel security is limited primarily to identifying financially irresponsible and vulnerable people who pose a greater than normal security threat as a result of having these problems. It is reasonable to assume that individuals who have avoided such problems in the past will be less likely to: a) commit crimes against their organization in order to obtain funds, b) suffer from serious gambling or drug addiction problems, c) exhibit other forms of irresponsible behavior, d) be overly preoccupied or under stress as a result of being plagued by financial worries, and e) have lenders attempting to garnish wages or taking other steps that might burden the organization's resources when it is forced to intercede in these matters.

In the near future credit reports may play a greater role in the identification of offenders who have been engaging in financially related crimes. Improvements will occur in computerized methods of analyzing credit reports to identify individuals whose ability to pay creditors at abnormally high levels given their household income reflects unexplained affluence. In addition, computerized matching of information contained on credit reports with entries on other personnel security documents, such as financial disclosure statements, personnel security questionnaires, etc., should greatly enhance the ability of investigators to identify inconsistencies between those documents.

One feature that makes credit information so valuable is the relative completeness of the data. If a person fails to pay his/her creditors as agreed, the chances are reasonably high that the occurrence will be noted on the person's credit report. The accuracy of that derogatory information can also be fairly easily and quickly verified. Thus, acts of financial irresponsibility are more likely to be accurately assessed than most other types of proscribed behavior, such as drug use, sexual deviations, contacts with people from designated countries, and other offenses, which are more dependent on the person being arrested or having self-disclosed that information.

Another important feature is that the derogatory information can be used by adjudicators for two purposes. First, it can be used to identify issue cases involving financial irresponsibility that are independent of other security-related issues. Second, it can be used to help confirm the seriousness of other security-related issues, such as drug use, problem gambling, and other areas, in which financial difficulty is a common symptom.

Unfortunately, at the present time funds do not permit 1) the Department of Defense (DoD) to check the credit of most people being considered for secret level clearances, 2) a second credit check to be run 2 or 3 years later on those whose initial credit check failed to disclose any credit information (i.e., after their employment with the DoD or one

of its contractors has given them more of a chance to obtain and use credit), 3) periodic reinvestigation credit checks for most people holding Secret level clearances, or 4) annual or intermediate (e.g., every 2 1/2 years, as opposed to every 5 years) continuing assessment credit checks on those holding especially sensitive positions.

Description of the System Used to Purchase Credit Reports

The Defense Investigative Service (DIS) purchases over 30,000 credit reports a month. Identification of the individuals undergoing background investigations who need credit checks and the corresponding addresses that should be examined during that process is completed by Defense civilian employees at the Personnel Investigations Center in Baltimore, Maryland. The Personnel Investigations Center (PIC) is an agency of DIS. Decisions concerning both whose credit needs to be checked and which addresses should be considered are governed by policy established at the Office of the Secretary of Defense (OSD) and delineated in the Personnel Security Program Regulation (DoD 5200.2-R). Sheets designating the people and addresses whose credit histories need to be checked are dispatched to CBM, a subsidiary of the Equifax Corporation, for processing. CBM, in turn, submits the credit history inquiries to the particular national vendor(s) they feel would be the most appropriate given the location(s) to be checked. After completing that task, they provide PIC with copies of the credit reports from those different vendors in a common format. Other services provided by CBM include verifying that the credit reports received from the vendors pertain to the individuals under investigation and seeing that DIS inquiry statements are removed from those whose credit reports that were obtained by mistake. A more comprehensive description of the credit history acquisition system DIS uses is presented in Appendix B.

CBM charges DIS \$2.96 for each inquiry that does not result in a credit report being issued (no credit information found) and \$3.04 for those resulting in a credit report. On the average, DIS has approximately 2 credit reports/inquiries run per subject. Under the present contract, the amount paid by DIS to CBM for credit reports is the same regardless of which vendor supplies the report.

Description of the National Vendors

Currently, there are three main credit vendors that offer nationwide credit history services in the United States. They are CBI, Trans Union, and TRW. When the data used in this study were originally gathered in May 1989, there was a fourth large national vendor--Chilton. However, Chilton was later acquired by TRW, and both their computer systems and the credit files housed within them were merged in December 1989.

National credit vendors acquire much of the data they secure from local merchants and other credit lending institutions through a network of local affiliated credit bureaus.

In addition to helping the vendors acquire credit data, these affiliated bureaus also sell the vendor's credit reports to organizations within their service area. All posting of credit information for these national affiliates is now done at regional and national centers and all of the data entered is stored in that vendor's nationally centralized computer system. Consequently, when dealing with one of these national vendors, accessing credit reports through a person's hometown affiliated bureau instead of an affiliate in another part of the country does not offer any benefits with respect to the quantity and quality of the information obtained.

Local credit bureaus continuously submit the credit data that they acquire to the national vendor with which they are affiliated. As a result, each of the three primary vendors is able to provide comprehensive credit information using data drawn from all of their affiliated credit bureaus. TRW calls its national credit search system Accu-Search; Trans Union calls its system UNISSN; and CBI does not have a special name for its nationwide system. The following are some of the advantages that are gained by credit report requesters who use a nationwide system:

- 1) There is no additional charge for receiving nationwide coverage. This coverage would help in identifying additional accounts and residences that a person might have maintained which fall outside of the primary areas to be covered (i.e., the places the person lived, went to school, or worked in for a total of more than 6 months during the period being investigated).

- 2) There is no additional charge for alternative surnames (e.g., aliases, misspelled names, maiden or previous surnames) that are discovered during the search process.

- 3) All of the information retrieved is contained in a single credit report. This reduces wasted paper and the amount of redundant information that clerks, case controllers and adjudicators have to read.

Normally, when businesses request a national credit check on someone they only purchase one report per person per vendor. DIS, on the other hand, frequently pays for more than one credit report per person from the same vendor. One of the reasons for this may be their desire to ensure that they meet the credit investigation requirements presented in the DoD 5200.2-R, which call for a credit bureau check to "cover the 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands, at all locations where the subject has resided (including duty stations and home ports), has been employed, or attended school for 6 months (cumulative)" during the period of investigation (pp. B-4, B-9, B-11). To guarantee that the stipulated level of coverage was provided, DIS required separate credit inquiries being submitted for each address that fell within the territory of credit bureau had not already been queried for that subject, as opposed to requiring one national credit check that provides the required level of coverage in all of those areas.

Another reason for DIS securing separate credit checks for each address relates to the quality of service provided by the vendors. There have been numerous instances in the past in which multiple requests to the same vendor for the same person have resulted

in securing additional derogatory information. It should be noted, however, that the vendors have made, and will continue to make, numerous improvements to their nationwide credit history services. These improvements have steadily decreased the need for requesting separate credit histories for each address at which the person has resided. DIS has been monitoring these improvements, which is one of the main reasons why they are currently giving serious consideration to altering their credit report acquisition process at this point in time.

The only drawback to limiting the number of credit history inquiries to just one per person for a given vendor when the subject has only used one name (i.e., no prior maiden name, married names, aliases, or other name changes) is that greater reliance is placed on a fewer number of the subject's prior addresses that are considered by the system during the file matching process. Subject identifiers submitted to the credit vendor typically include: 1) current address, 2) one or two former addresses, 3) last name, 4) first name, 5) middle name, 6) surname suffix (e.g., Jr., Sr., III, etc.), 7) social security number, 8) date of birth, and 9) spouse's first name. Matching algorithms³ are used 1) to avoid obtaining information that pertains to some other person and 2) to avoid missing information contained in the system that pertains to the person whose credit history is being checked. Typically, in order for a match to occur when the addresses listed on the inquiry do not match those contained in the credit file, most or all of the 9 digits on the social security number must agree, plus there must be a match on either the person's first⁴ or last name. Hence, if the subject's social security number were either omitted or incorrectly entered by an affiliated bureau or one of its reporting agents, information contained in the system would be less likely 1) to be detected by the search and 2) to have been previously merged into the subject's main credit report, unless one of the addresses contained in that credit file matched with one of those provided on the inquiry.

The same type of drawback holds when only one name is submitted to the credit vendor when that person has used multiple names in the past. If a) the social security number was either omitted or in error, b) the addresses listed on the inquiry did not match those listed on the file, and c) the files had not been previously linked, it is unlikely that the credit information would be obtained. When subjects change both their first and last names, it is even less like that the credit information will be retrieved, especially if those changes are not reported to the vendor by the creditors of those individuals.

³Matching algorithms are systems that award points for matching certain identifiers, combined with the numeric criteria that need to be achieved in order for a probable match to be declared.

⁴System-authorized nicknames and initials are usually programmed to serve as permissible first name substitutes.

The Problem

Initially, PERSEREC was asked to help find a more efficient and effective manner of acquiring credit reports. After examining the procedures used and the types of outputs obtained, the focus of the study was narrowed to search for procedures that would reduce the level of redundant credit information for which the DIS was paying. This modification is more than simple semantics; it signalled a significant change in the orientation of this project. It took the problem from an abstract goal to a concrete objective; it provided one of the metrics by which the degree of success attained by the alternative system changes could be gauged; and it refocused the study on eliminating unproductive waste, which is presumed to be a universally desirable objective.

The reorientation of the study was precipitated by some of the intermediate findings. After examining a sample of credit reports that had been purchased by DIS, it was noted that many of them were either identical or supplied no additional information about the subject under investigation (see Appendix C). It was also observed that these useless reports occurred most frequently when more than one credit report was purchased from the same vendor for the same person.

Method

Description of the Sample

During May 1989 a quota sample of credit history reports was obtained from DIS on 1,956 people who were undergoing a security clearance background investigation that required credit history information. Many of the subjects had more than one credit report inquiry (mean = 2.1/person) because they had lived, worked, or gone to school in more than one location since their 18th birthday. As previously noted, current DIS investigative requirements specify that the subject's credit history should be checked at each location that falls under the territory of a credit bureau has not already been queried for that subject, if that person has lived at that address a total of six months or more during the period under investigation.

Some of the cases in the original sample were excluded because sections of the credit reports were missing. The final sample consisted of 1,912 people who had a combined total of 4,040 individual credit reports.

Limitations of a Quota Sample

Quota samples differ from random samples in that all cases are included in the sample from the selection starting point until the desired sample size has been attained. Quota samples are generally used because they are the least expensive and most easily obtained. These factors are often critical when the data are supplied by another organization. The chief limitation of quota samples is that the data may not be representative of the larger population because they are bound by a narrower time range, making them more susceptible to seasonal and other short-term fluctuations. Although the researcher is unaware of any system or environmental changes occurring during the data collection period that would have significantly affected the outcome of this study, and although the ratio of credit reports per subject found in this study appears consistent with figures supplied by DIS for a longer time period, it is important for the reader to be aware of this methodological limitation.

Initial Processing and Entry of the Data

The data DIS supplied for each subject in the sample consisted of:

- 1) A report of investigation (ROI) noting the addresses (if any) where credit bureaus had disclosed a) no unfavorable information, b) no information at all, and c) unfavorable information.

2) Photocopies of the personnel security questionnaire (PSQ) page(s) designating the locations of residence, employment, and education that needed to be covered by a credit history report.

3) A credit inquiry panel (a sheet of paper) specifying for each address whether a report was requested (additional reports were not requested by CBM when an address was covered by the same credit bureau queried for another address) and which credit vendors and bureaus were selected to provide the credit reports.

4) Photocopies of the actual credit report(s).

Two data files were constructed using these data. The first data file included the following information for each subject:

1) The number of trade items (credit accounts with commercial lenders that are posted on the credit report, see items designated "TR" in Appendix C) contained on each credit report obtained for that person.

2) The number of prior credit inquiries (requests for copies of that person's credit report; see items designated "IQ" in Appendix C) contained on each credit report.

3) The type and amount of previously undetected derogatory information gained from one report to the next. During the data entry phase, a person's second report was compared to the first and any additional derogatory information was noted. Similarly, the person's third report was compared to the first two and any additional derogatory information was recorded. This process was continued in the same manner until the additional derogatory information added from all of the subsequent reports was identified and recorded.

4) The vendor who supplied the respective credit reports.

5) Any aliases or other prior names used by the subject that were submitted on the credit inquiries.

The second data file was comprised of information drawn from the credit inquiry panel supplied for each subject and included 1) each address on which DIS had requested credit information, 2) a data field denoting whether CBM requested a credit report for that location, 3) the name of the credit vendor that was selected to provide that credit report, and 4) any aliases or other previously used names that were checked for that particular person.

Issues Examined

Three issues were explored during the course of this study. The first issue pertains to how many credit reports in the sample were purchased from the same vendor for the same person. The primary reason for addressing this question is that it reveals the magnitude of what on the surface appears to be a questionable practice -- requesting more than one credit report from the same vendor for the same person. The second issue concerns the frequency with which additional useful information was acquired as a result of those same-person, multiple submissions being made to the same vendor. Despite multiple admissions by the vendors which suggest that the practice of requesting same-person, same-vendor credit reports has little or no value, it was felt that an empirical assessment of the utility of this practice was essential prior to recommending that this component be eliminated. The third issue involves the cost-benefits that would result if submissions to the same vendor for the same person were limited to one. Specifically addressed by the third issue are 1) the number of additional people who could receive credit checks if the funding remained the same and 2) the amount of savings that would result if the number of people to receive credit checks were held constant.

Key Groups

Three categories of credit report inquires received special attention during the data analysis phase--one-name, multiple-addresses; multiple-names, one-address; and multiple-names, having multiple addresses listed in conjunction with at least one of those names. One-name, multiple-address reports occurred when subjects had not changed their name or used aliases, but had lived for a total of at least six months in two or more geographical areas⁵ during the period under investigation. Multiple-names, one-address reports occurred when subjects reported that they had changed their name on their PSQ (e.g., had been married or divorced and started or stopped using their spouse's last name, used aliases, or legally changed their name for some other reason), but had only lived in one geographical area for the requisite total of more than six months during the period under investigation. The third category occurred when subjects reported using more than one name and had lived for a cumulative total of at least six months in two or more geographical areas while using one of those names.

⁵The term geographical area is used in this context to refer to the area that is covered by a given credit bureau's territory. If during the period under investigation a person had a) moved out of the territory of one of the credit bureaus selected to provide credit information on that individual and b) resided in another location for a total of at least six months, then that person would have categorized as having multiple addresses.

The reason these three categories were treated separately during certain analyses is that it was suggested that the utility of requesting multiple credit reports from the same vendor for the same person might vary across these three conditions.

Results

The Number of Multiple Credit Reports Purchased from the Same Vendor for the Same Person

The number and category of credit reports purchased by vendor is presented in Table 1. As documented in that table, 34% of all credit reports contained in the sample were not the first credit report that was purchased from a vendor for a given person. Thus, if the number of nationwide credit report searches on subjects were limited to no more than one per vendor, 34% fewer credit reports would be necessary to cover the same number of people. Another way of stating this relationship is that the number of credit reports per person would drop from 2.1 to 1.4. The main reason the figure does not drop from 2.1 to 1 is because a second or third credit report from the other vendors might be necessary under the current vendor selection approach depending on the number of places and the locations where that person lived during the period under investigation.

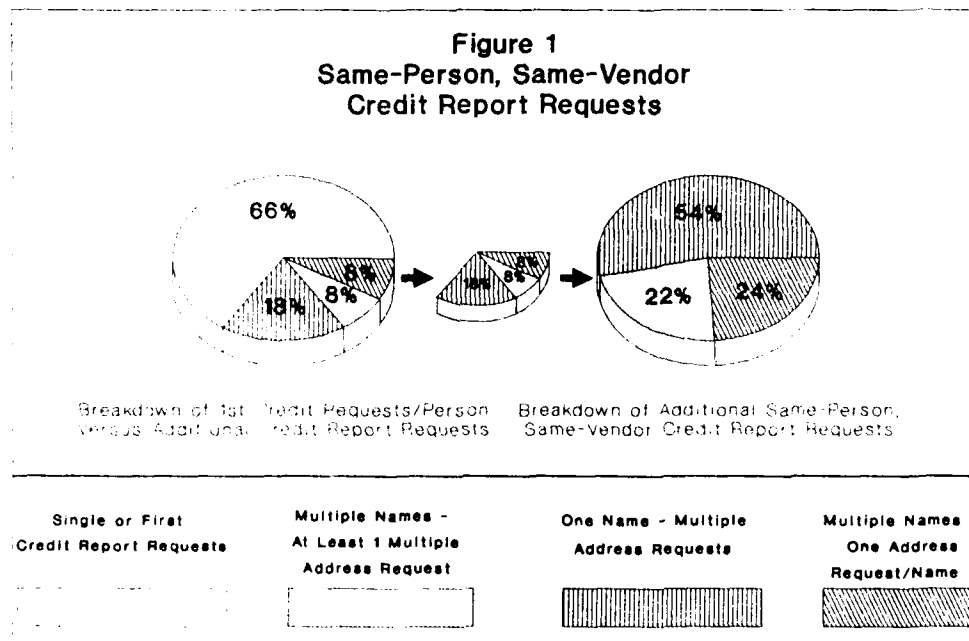
Table 1

The Number and Category of Credit Reports by Vendor

	First & Single reports/subject/ vendor	Additional reports (one-name, multiple-reports)	Add'l reports (multiple names, one-address)	Add'l reports (multiple names, multiple-addresses)	Total
CBI	1271	498	163	241	2173
CHI	459	83	48	39	629
TU	665	132	93	29	919
TRW	265	26	27	0	318
Total	2660	739	331	309	4039
% of Total	65.9	18.3	8.2	7.7	100.1*

$$(18.3\% + 8.2\% + 7.7\% = 34.2\%)$$

Figure 1 graphically depicts the three segments of same-person, same-vendor additional reports addressed in Table 1. Approximately half of the additional reports purchased involved parties who only used one name, but had lived in multiple geographical areas. The other half involved parties who used more than one name (e.g., maiden name, alias, married name), and these were fairly evenly distributed between those who had addresses covered in only one geographical area per name and those who had at least one instance of addresses covering two or more geographical areas. As previously noted, the reason these three segments are analyzed individually, as well as collectively is that the appropriateness of same-person, same-vendor multiple credit reports might vary across those particular categories.



**Benefits currently associated with multiple credit reports
from the same vendor for the same person**

The primary focus of this project is on eliminating redundant credit reports. The most stringent test of whether a credit report is redundant is whether it is it could pass as a photocopy of another report with the possible exception of the number of DIS inquires (i.e., the number of times DIS had previously requested a credit history on that person) that are listed on the report. Purely redundant reports provide no additional useful information. Many, but not all, of the multiple same-person, same-vendor credit reports met this stringent definition of redundancy.

During the data entry phase it was not recorded whether reports for an individual were identical; nor were specific entries on the credit report recorded. The number of trade items (accounts with commercial lenders that were posted on the credit report, see items designated "TR" in Appendix C), however, were included in the data file. After examining a sample of files, the researcher determined that the number of trade items could be used to estimate the number of purely redundant reports. Reports from the same vendor for the same person having the same number of trade items were classified as redundant. However, it is possible that two different credit reports could have the same number of trade items which would result in their being incorrectly classified as redundant. For example, if both the first and second credit reports contained three trade items, but those trade items were not the same accounts, the second report would have been misclassified as redundant. Conversely, it is possible that the data coder who initially entered the number of trade items contained on the report miscounted, which would result in an underestimate of redundancy. Based upon examination of a random sample of 100 cases, it appears that this method of estimating purely redundant files is sufficiently accurate (estimated number of redundant reports = 56, actual number of redundant reports = 55).

The more credit reports purchased from the same national vendor for the same person, the more likely it is that some will be purely redundant. The estimated percentage of purely redundant reports purchased is presented by vendor in Table 2. That estimate varied depending on the vendor. The percentage of credit reports estimated to be exact duplicates were 84%, 88%, 76% and 58% for CBI, Chilton, TRW and Trans Union, respectively. Table 2 also depicts the estimated number of purely redundant credit reports found in the three segments of same-person, same-vendor multiple reports that were described earlier. The estimated percentage of purely redundant credit reports for multiple-name, single-address; single-name, multiple-address; and multiple-name, multiple-address cases were 70%, 82%, and 84%, respectively. Thus, it appears that depending upon the vendor, purely redundant reports tend to be less likely to occur when aliases are involved.

Table 2
Percent of "Purely" Redundant
Credit Reports by Category

	Multiple-names, single-address	Single-name, multiple-address	Multiple-names, multiple-address	Combined
CBI	77.4%	86.2%	84.4%	84.2%
TU	49.3%	60.6%	71.1%	58.1%
TRW	54.9%	98.0%	no cases	76.0%
CHI	93.0%	85.6%	94.1%	87.1%
Combined	70.4%	81.9%	84.4%	79.4%

Another measure of redundancy is whether any additional derogatory information can be derived from multiple submissions to the same vendor for the same person. As noted in the method section, the type and amount of previously undetected derogatory information gained from one report to the next were recorded. A person's second report was compared to the first and any additional derogatory information was noted. Similarly, the person's third report was compared to the first two and any additional derogatory information was recorded. This process was continued in the same manner until the additional derogatory information added from all of the subsequent reports was identified. In many of these cases, the reports compared were not from the same vendor (e.g., the first report was from CBI, while the second report was from TRW); however, a sufficiently large number of both reports did come from the same vendor which permitted meaningful comparisons to be made.

An analysis was conducted on how frequently any additional derogatory information was discovered by the second credit report from the same vendor. Table 3 presents the findings of that analysis. In the sample there were 589 subjects who had both their first and second credit reports produced by the same vendor (e.g., both from TRW, both from CBI, etc.). Out of those 589 subjects, 27 (4.6%) initially appeared to have had additional derogatory information secured as a result of that second inquiry. Each of those 27 reports was individually examined. Seven of them were incorrectly classified

[on three, the reports pertained to another relative (i.e., father, brother, former spouse), on one, the vendor was miscoded; and on three, no additional derogatory information was found]. However, there were 20 (3.4%) cases remaining that did yield some additional derogatory information. The overall base rate of finding derogatory information for the subjects in this study was 33% (35% for CBI and Trans Union, and 26% for Chilton and TRW; the population mean associated with the latter two vendors is expected to be higher now as a result of Chilton and TRW merging). Thus, multiple submissions to the same vendor for the same person were only about 1/10th as likely as an initial submission to detect any additional derogatory information.

Table 3

Percent of Cases Having Two or More Credit Reports in which the Second Credit Report Disclosed Additional Derogatory Information

		SECOND VENDOR			
		CBI	CHI	TRW	TU
F I R S T V E N D O R	CBI	4.4% n = 409	17.0% n = 100	21.7% n = 60	14.9% n = 114
	CHI	28.0% n = 82	2.8% n = 71	16.7% n = 12	18.2% n = 33
	TRW	8.1% n = 49	38.5% n = 13	0.0% n = 12	7.1% n = 15
	TU	26.3% n = 95	4.2% n = 24	21.4% n = 14	7.2% n = 97

In most of the 20 cases the additional derogatory information was minor and occurred during an earlier period (i.e., it represented "stale" file fragments that were not joined to that person's main credit file). In two cases, however, the information obtained was fairly serious. One of those cases involved a bad debt that was placed for collection, the other a bankruptcy that was not disclosed on any of the other credit reports and would have otherwise been missed if the subject had not self-disclosed that information.

Fifteen of the twenty cases (75%) were single-name, multiple-address cases. The other five (25%) were multiple-name, multiple-address cases. Fifty-four percent (54%) of the multiple request same-person, same-vendor cases in the entire sample were single-name, multiple-address cases, 24% were multiple-name, single-address cases, and 22% were multiple-name, multiple-address cases. Thus, the single-name, multiple-address cases were over-represented among those cases where additional derogatory information was found by the second credit report, and the multiple-name, single address cases were under-represented in those cases. This finding is contrary to what one might have expected, given levels of pure redundancy found in each of those segments (i.e., the multiple-name, single-address cases had the least pure redundancy). One possible explanation for this finding is that in the sample, women, who tend to change their names more frequently than males (e.g., many women change their name when they get married, divorced, or remarried) may have had better credit histories. However, an analysis of the derogatory credit information revealed that the females in this sample tended to have more instances of derogatory credit information than their male counterparts (30% of males and 36% of the females had some derogatory credit information). Another possible explanation is that the married subjects tended to have better credit than single subjects. However, given that married people tend to be older (giving them more time to obtain and use credit, and to interject some derogatory credit information into their credit histories), this hypothesis may prove equally incorrect. Unfortunately, the marital status of the subjects was not recorded, so the latter hypothesis cannot be tested with the present data.

Potential benefits from eliminating multiple same-person, same-vendor submissions

Given the very limited utility of requesting multiple credit reports on the same person from the same vendor, it appears appropriate to assess the projected potential benefits that would accrue if the practice of purchasing multiple reports from the same vendor for the same person were eliminated. Table 4 presents the potential savings from eliminating those reports based upon DIS projections for the next five years. Also contained on that table is the number of additional people whose credit could be examined if the amount of money spent on obtaining credit histories were held constant. Simply by eliminating same-person, same-vendor multiple credit report submissions, over fifty percent (51.8%) more people $[(1.0 - .3414) \times 100\%]$ could be given credit searches for the same amount of money that is expended using the current system.

Table 4
DIS Projected Figures Without Budget Cuts

	# of Credit Reports	# of People (Current Approach)	100% Savings Approach (\$ Savings Possible)	100% Utilization Approach (# of Extra People Possible)
FY 90	600,000	284,360	614,000	147,294
FY 91	724,500	343,365	742,000	177,858
FY 92	724,000	343,128	741,000	177,735
FY 93	728,000	345,024	745,000	178,717
FY 94	728,000	345,024	745,000	178,717
5 YEAR TOTAL			\$3,587,000	860,321

DIS Projected Figures With Budget Cuts

	# of Credit Reports	# of People (Current Approach)	100% Savings Approach (\$ Savings Possible)	100% Utilization Approach (# of Extra People Possible)
FY 90	407,000	192,891	416,768	99,915
FY 91	354,000	167,773	362,496	86,903
FY 92	315,500	149,526	323,072	77,452
FY 93	300,000	142,180	307,200	73,647
FY 94	281,000	133,175	287,744	68,983
5 YEAR TOTAL			\$1,697,280	406,900

Discussion

As a consequence of being shown the preliminary findings of this study and of being asked by Barbara Melnick at DIS and the researcher why certain anomalies were occurring in the data collected for this study, CBM (the contract firm that purchases the credit reports for DIS) assembled an internal task force, conducted some preliminary analyses confirming the utility of implementing one of the recommended changes, and discovered certain weakness in their computer programs that they reported were restricting the amount of data they were receiving from the credit vendors. On 20 March 1990 they corrected those deficiencies and implemented one of the recommendations we asked them to critique, which they have indicated will result in INCREASING the amount of credit information that is obtained on people receiving credit checks in conjunction with DoD security clearance investigations and DECREASING the per person costs that they charge DIS (see Appendix A). It is estimated that those changes alone should result in DIS saving approximately 14.6% of their entire credit acquisition budget (see Recommendations - Alternative #1 in Appendix D).

Because CBM's computer system apparently had been inadvertently programmed to ignore multiple credit files that the credit vendors were transmitting to them, some of the results from this study need to be interpreted with caution. According to CBM, prior to their correcting the problem, if a credit vendor sent more than one credit file in response to a single inquiry, their system would have ignored that information. In cases where there is reason for a credit vendor to believe that one or more additional files might pertain to the party in question, but insufficient data to justify their merging all of the data from those files into a single credit report, vendors provide those additional files at no cost. It is likely that the vendors transmitted more than one file to CBM on certain subjects included in the sample. Consequently, the value attained by making multiple submissions to the same vendor for the same person maybe over estimated by this study (i.e., the additional information that was missing on one of the reports may have been transmitted by the vendor, but ignored by CBM's computer system).

The savings forecasted in Table 4 are based upon the current rates for obtaining credit reports and the average per person number of credit reports purchased prior to 21 March 1990. It is possible that the fees charged in the future will rise independently of any changes that are made to the credit acquisition system, thus increasing the level of savings, or that the vendor may increase fees as a result of the changes that are initiated, thus lowering the level of savings.

It should also be noted that there are secondary implications associated with both the cost savings and the expanded coverage approaches depicted in Table 4. The cost savings approach would also result in fewer credit reports to print, transport, read, and store. In addition, there would be more dollars available (or reduced budget cuts) for other programs. The expanded coverage approach (i.e., keeping the funding level the same and enlarging the population that receives credit checks) would enhance security by helping to ensure that more financially irresponsible and vulnerable people who either

hold or are applying for DoD security clearances are being detected. It should be noted, however, that if the latter approach is followed, it would also result in increased case control, investigation, and adjudication demands because more people would then be screened on the basis of their credit history.

The primary efficiency improvement method that has been addressed in this study forces policy-makers to decide whether to limit the number of inquiries to one per vendor for each person and occasionally lose some potentially useful information, or continue with multiple submissions and pay in most cases what amounts to an additional \$3.00 for each duplicate copy of credit reports that have already been obtained. There is, however, a third course of action to consider. By altering the process through which credit reports are requested, much of the redundancy can be eliminated without a significant loss of information. For example, instead of making multiple submissions for a given individual all at the same time, it would make more sense to make an initial inquiry, which incorporates as many previous addresses as the vendor will permit, wait until that credit information is returned, then assess whether an additional request is warranted. This entire process could be automated by the contractor and should only delay PIC's receipt of the information in cases in which there are more than two addresses (three for TRW) to be checked, and even then, only result in delays of a day or two. A further description of this type of system is presented in the recommendation section of this report. Whether the additional effort and expense of making these modifications is worth the relatively low payoff is debatable. In addition, given the year to year contracts generally offered to the firm that purchases the credit reports for PIC, that firm might not be willing to incur significant system modification costs, unless it is reimbursed by DIS.

While the improvements already made by CBM as a result of this research should significantly decrease credit acquisition costs and increase the amount of credit information that is obtained, consideration should be given to further altering the current credit report acquisition system. How it should be altered depends upon whether policy-makers feel it is worthwhile to spend additional money on multiple submissions to the same vendor for the same person when there is some chance that this might result in additional information, or whether the submissions should always be limited to just one (unless the subject changed both his/her first and last names during the period under investigation).

Recommendations

Primary Recommendation:

The primary recommendation of this report is to eliminate all categories of multiple same-person, same-vendor credit history requests and to utilize some of the savings that result to expand credit checks in certain other segments of the DoD cleared population and to implement certain enhancements to the credit report processing system that would save manpower and reduce the time for processing financial issue cases.

Alternative Recommendation #1:

The first alternative to the primary recommendation was submitted to CBM for critique in January 1990 and implemented by that organization in March 1990. It reduces redundancy by more efficiently utilizing the prior address fields on the credit request inquiries.

Alternative Recommendation #2:

The second alternative to the primary recommendation would further reduce redundancy by utilizing an interactive credit report purchasing strategy. Currently, large numbers of identical credit reports are being secured (and paid for) because multiple same-person, same-vendor submissions are made simultaneously, thereby eliminating the possibility of using any information contained on the returned credit reports to aid in the purchasing decision logic. Under the second alternative only one credit report per person would be initially requested by computer for each vendor selected. Information contained on the initial credit reports would be used to help assess whether any additional credit reports from that vendor are needed for those people.

Secondary Recommendation #1:

The primary recommendation and the two alternatives to it are designed to reduce within vendor redundancy. This recommendation seeks to reduce between vendor redundancy by altering the vendor selection process. Under the current credit report acquisition system, the superior vendor for each address to be covered is supposed to be selected. Instead of selecting vendors by considering each address individually, it is recommended that all of the addresses be considered collectively and that the vendors be selected on the basis of which could provide the desired level of coverage the most economically for each person undergoing investigation.

Secondary Recommendation #2:

Under the current system, after the subject's credit file is complete, the contractor submits only hard copies of the credit reports to PIC. It is recommended that in the future an electronic copy of the report(s) also be submitted to PIC, and that the data associated with those reports along with the initial subject identifiers, addresses and dates that were entered by the contractor at the beginning of the credit report acquisition process be copied to tape for storage at DMDC. Those tapes would be used for future credit research conducted by both DMDC and PERSEREC personnel, as well as for certain operational purposes.

A more detailed description of these recommendations and their estimated impact is presented in Appendix D.

Conclusion

This study has uncovered different methods by which DIS can more efficiently purchase credit reports. The focus of the research was on reducing redundant reports that occur when more than one national credit report is purchased from the same vendor for the same person. If this practice were completely eliminated, DIS would reap a savings of 34% of their budgeted funds for acquiring credit reports or be able to run credit checks on 52% more people for the same amount that was originally budgeted. The level of savings could be increased to a total of nearly 50% by combining that change with the proposed modification to the vendor selection process (doubling the number of credit reports that could be purchased for the same funds). However, given that the current practice of multiple same-person, same-vendor credit checks does occasionally disclose information that may not have been discovered otherwise, policy-makers might wish to chose a more conservative course of action.

If a conservative approach is desired, there are additional changes that could be implemented that would reduce redundancy with little or no loss of useful information. Those procedures are described in detail in Appendix D. They capitalize upon the search logic used by the vendors and more fully utilize the other capabilities of those systems (e.g., submitting the maximum number of prior addresses permitted by the vendors in a single inquiry). As previously noted, one of those suggestions has already been implemented by CBM. That change alone should result in DIS saving approximately 14.5% of it credit report acquisition budget. Regardless of the additional courses of action chosen, PERSEREC will continue working with DIS, the vendors, and the contractor until the strategies deemed most desirable by DIS have been fully implemented and evaluated.

List of Appendixes

Appendix A: Letter from CBM

Appendix B: The Current PIC/CBM Credit History Acquisition Process

Appendix C: An Example of Redundant Credit Reports

Appendix D: Detailed Descriptions of the Recommendations

APPENDIX A
Letter from CBM

CBM **EQUIFAX**

8440 Westpark
Houston, Tx 77063
(713) 954-6400
FAX (713) 781-8264

April 4, 1990

Howard W. Timm, Ph.D.
Program Manager
Financial and Credit
PERSEREC
99 Pacific Street, Suite E
Monterey, California 93940-2481

Dear Dr. Timm:

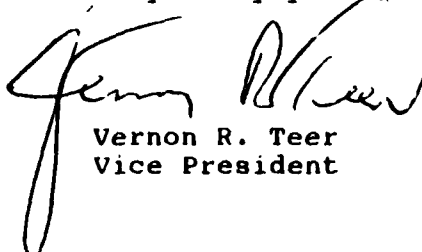
Based on each of our studies of the issues you raised concerning the partial and/or complete elimination of multiple credit history requests to the same vendor on the same individual, CBM has made the following programming changes to our system:

- 1) Changed the programming to allow our system to input the current and two former addresses to the credit reporting systems on each individual.
- 2) Changed the programming to allow the CBM system to receive back all the output sent back to CBM by the three credit reporting systems.

These changes were made on 3-20 and 3-21, and will allow DIS to receive multiple reports on individuals through the utilization of only one request submission. These changes will resolve the issues raised in your study as to why multiple report information was not received from the reporting systems without having more than one request submission submitted.

You may verify through the DIS office in Ft. Holabird, Maryland, that these changes are already noticeable through the reports they are receiving.

Very truly yours,



Vernon R. Teer
Vice President

VRT:rmh

Credit Bureau Marketing • an Equifax Company

Appendix B

The Current PIC/CBM Credit History Acquisition Process

Appendix B: The Current PIC/CBM Credit History Acquisition Process

Step #	Task	Assigned Party
Step 1 -	The case is assigned to one of 18 teams depending upon the requester (the agency requesting the clearance), type of clearance, and current workloads of the teams.	PIC Case Assignment
Step 2 -	The case file is examined to determine whether it will be accepted by PIC (e.g., certain forms might be missing or the individual's PR might not be due). If accepted go to Step 4.	PIC Admin. Clerk
Step 3 -	If the case is rejected by PIC it is returned to the requester with an explanation of the deficiency. Approximately 3 - 4% are rejected.	PIC Admin. Clerk
Step 4 -	<p>The case is coded and entered into the DCII. The information is taken from DD Form 1879 supplied by the requester. Data inputted includes:</p> <p>Name(s), SSN, case control number, sex, DOB, POB, and level of priority.</p> <p>A set of 10 labels is generated containing that information, one label is affixed to the subject's DD Form 398, 48, 49; PIC Form 44; or Form G2937 (used by the NSA).</p>	PIC Admin Clerk
Step 5 -	The parts of DD Form 398, 48, 49; PIC Form 44; or Form G2937 noting relevant addresses and AKAs are copied if necessary. However, sufficient multiple copies are usually supplied by the requester.	PIC Admin Clerk
Step 6 -	Each address (1 per city) in the U.S. where the subject has attended school, been employed, or resided a total of six months or more during the period of review <u>and</u> each name the subject lists on the form (except nicknames) is underlined and	PIC Case Controller or Scoping Technician

extraneous derogatory information is blacked out (see PIC SOP Chap. 11A, pp. 1-4 for the guidelines).

The SSN on the Form is compared with the SSN on the label and any needed corrections are made.

A credit lead is entered on the DIS Action Lead Sheet (DIS Form 13) as "XCRDT". Credit leads are traced every 15 days after submission by the case controller. Lists of "XCRDT Leads 30 Days or Older" and "Leads to be Traced" are supplied to the case controller for this purpose.

- | | | |
|-----------|---|---------------------|
| Step 7 - | The lead is entered into the computer tracking system (DIMS) | PIC Admin.
Clerk |
| Step 8 - | The case number, name(s) (first, middle initial, last), surname suffix (e.g., Jr, Sr), SSN, name of spouse, current and prior addresses (i.e., number, street name, city, and zip code), an address code (1 = residence, 2 = employer, and 3 = education), and DOB are inputted into the computer. | CBM-Baltimore |
| | The duplicate section(s) of the DD 398 et al form submitted to CBM are stored in batches of 50. | |
| Step 9 - | Credit report vendors are selected on the basis of the zip codes listed. The IDs of the vendors selected are merged with subject identifiers for each case in the batch, which are stored on disk for case management and future collation of reports. 100% of the credit report requests made by CBM are submitted to one of the 3 automated national vendors. | CBM - Houston |
| Step 10 - | The identifiers are formatted to be compatible with the vendor(s) selected. | CBM - Houston |
| Step 11 - | The vendor determines which of its bureaus should be contacted, or subcontracts with a local Credit bureau to search their files on the basis of the zip code(s) submitted to it. | Vendor Selected |

- | | |
|---|---------------------|
| Step 12 - A weighted value is assigned to each identifier that has been inputted (e.g., last name, SSN) and the closest possible match (within predetermined limits) is selected. TRW & Chilton <u>up to 1</u> report/inquiry; Trans Union 2; CBI 4; ACS Unlimited. The vendors only charge for one report. | Vendor Selected |
| Step 13 - The returning credit report information is stored on tape until all of the vendor bureaus contacted have submitted their findings for each case within a given batch. | CBM - Houston |
| Step 14 - The credit reports submitted are placed into a common format <u>and</u> a credit panel noting the credit bureau(s) selected and the number of separate reports issued is constructed by computer software. | CBM - Houston |
| Step 15 - The credit panels and reports are printed. | CBM-Baltimore |
| Step 16 - The stored duplicate pages of the DD Form 398 et al are pulled by batch and attached to the credit panel and credit reports. The reports are checked to verify that they pertain to the subject identified on the government form. | CBM-Baltimore |
| Step 17 - The reports are rechecked to verify that the credit panel and report pertain to the individual under investigation and that all addresses and names identified on the DD Form 398 et al have been scoped. | PIC Admin.
Clerk |

If a report is missing for a requested address or name, PIC Form 19 or optional Form 41 is completed and attached to the entire packet, which is resubmitted to CBM. Go to Step 8 (it is placed in "Missent/Internal Mail" box).

If the inquiry information used by CBM to process the request was in error and this resulted in a "no record" report, PIC Form 19 is completed and attached to the entire packet, which is resubmitted to CBM. Go to Step 8 (placed in "Missent/Internal Mail" box).

If the report submitted pertains to a different person than the subject, PIC Form 41 or Optional Form 41 is attached to the packet. CBM contacts the credit bureau involved which, in turn, removes the DIS inquiry statement found in that person's credit report. Partially correct reports are split into correct and incorrect portions.

Approximately 100-200 cases/month submitted as possible matches do not pertain to the subject under background investigation and less than 1% must be resubmitted because they lack certain information.

Approximately 10 cases/month involve credit reports that contain some accounts that pertain to the person under investigation and some that pertain to another person. Those mixed files require a letter to be written that describes the particular problem encountered. When a credit report pertaining to a completely different person is obtained only a form letter is needed.

The individual credit reports are also checked to see if they contain any derogatory credit information. Those containing any derogatory information are coded as "3" (33%); those not containing any derogatory information are coded as a "1" (59%); and those where no credit information was available are coded as a "2" (8%).

Step 18 - A report of credit (ROC) is generated from the the information inputed in Step 4. The case control number is entered after reaching the appropriate menu using DIMS. A mistake while inputing the case control number will automatically prevent further data entry until the mistake has been corrected. Each city and state that was checked is inputed along with the code (i.e., 1, 2, or 3) assigned for that location. The type of report generated depends upon the codes that were issued.

PIC Admin.
Clerk

Examination of credit case files, as opposed to individual credit reports, indicate that 30.5% of those whose credit is investigated have one or more credit reports that contains derogatory information; 12.8% have no credit information detected; and 56.7% have credit reports that contain only positive information. If all of the credit reports for a given person were coded as either 1 or 2, go to Step 26.

- Step 19 - Code "3" credit reports are reviewed to determine whether they constitute an issue case using DIS 20-1-M criteria. Approximately 13 to 16% of all clearance applicants are treated as credit issue cases. If not a credit issue case, go to Step 26. PIC - Case Controller

Creditors and/or courts possessing derogatory information whose addresses were not contained on issue case credit reports are underlined.

Requests for the addresses of the specific creditors and/or courts identified as possessing derogatory credit information on those subjects are made to CBM. TRW reports already contain that information, so an additional request does not have to be made. If the credit report was issued by TRW or a multiple submission was made that included a TRW credit report that provided the needed address go to Step 22. Approximately, 7,950 addresses are currently purchased each month (3.85 addresses per issue case that did not include a TRW credit report.) 10.8% of all individuals that PIC submits, must be submitted to CBM for those addresses. CBM charges \$.46 for each creditor's name and address that they supply.

- Step 20 - The addresses of the creditors and/or courts identified as possessing derogatory credit information are determined. CBM-Baltimore
- Step 21 - The addresses of the creditors are affixed to credit reports. PIC Case Controller
- Step 22 - Requests for additional information related to this issue are submitted to DIS investigators. PIC Case Controller
- Step 23 - Investigators interview the subject about the credit issues and request waivers that would enable specific creditors to supply additional information germane to the case. If the subject makes a complete admission, the investigators submit their findings (go to Step 26). DIS Investigators
- Step 24 - Collateral requests are sent to appropriate DIS offices along with the release forms. DIS Investigators

- | | | |
|-----------|---|--------------------------|
| Step 25 - | Investigators interview the creditors and secure additional documentary evidence regarding the matter. Investigators submit their findings to PIC. | DIS
Investigators |
| Step 26 - | The file is examined to determine whether all sources contacted have supplied information pertaining to the credit issue raised, as well as all other issues that surfaced during the course of the background investigation. If the file is complete, go to step 27. | PIC - Case
Controller |
| Step 27 - | The file is examined to determine whether any additional information is needed (more common among DISR cases). If so, go to Step 22. | Adjudicator |
| Step 28 - | The complete file is examined to determine whether the clearance requested should be granted. | Adjudicator |

APPENDIX C: An Example of Redundant Credit Reports

Three separate credit reports purchased by DIS from CBM at \$3.04 for each report. All three reports were provided CBI affiliated bureaus. Trade item information (designated "TR" on the reports) appearing on each report duplicates the information listed on the other two reports.

Report #1

C-1

DOI: 10.1002/2009JB007011

[REDACTED]

[illegible]

CHROMIUM: 41.0-51.0

10070 1001 0447

NM

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FA- [REDACTED], EGLIN AIRFB, 32542.

LD 50, Agt 27.

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55#

CA

154

E: X

AFT

VALDUSTA

GA 31602

: SINGLE

FIELD 06/1992

FA

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 $\Gamma: \lambda$

AFT

VALDOSTA

GA 31602

: DIR

1: SINCE

RFFD 07/80

10 05/16/89 19_V000021 D.I.S.

VC.

10 15704787 826DC00199 SEARS

DC:

NAME	TR001OPEN	H/C	DLA	MR	TECOA	IPYMT	PROF	ISTAT
------	-----------	-----	-----	----	-------	-------	------	-------

ID CODE	COUNTERSTAMP	RTD	BAL	TERMS	IID-I	IPYMT	PROF	2	ITYPE
---------	--------------	-----	-----	-------	-------	-------	------	---	-------

ACCT. ##	IBALDTI	F/D	IEVAL	IACCTIDLI	FREV HISTORY	I
----------	---------	-----	-------	-----------	--------------	---

TR SEARS	DC	09/76	\$	2273	25	1
: 906DC000029 000000000	1	04/89	\$	2203	A	
: 8475-7589429520716			\$	0	R	

TR SEARS	DC	12/87	\$	961	16	1
: 906DC00029 000000000	1	04/89	\$	787	A	
: 8475-7589429521227			\$	0	R	

TR MHI/MC	BB	07/88	\$	4000	28	3
: 426BB00541	00000000	1	03/89	\$	3653	M00109 A
: 5217001613249370			\$	0		R

: N14 AMOUNT IN H/C COLUMN IS CREDIT LIMIT

CET CRC ANCHORAGE
1325 11 INTL AIRPORT RD #130
ANCHORAGE, AL 99518
(907) 561 0447

NAME	IKOBTOPEN	H/C	DLA	MR	TECOA	IPYMT PROF 1	ISTATI
ID CODE	ICOUNTERSTIMOP	IRPTD	BAL	TERMS	IID-I	IPYMT PROF 2	ITYPEI
ACCT. ##	IBALDTI	P/D	IEVAL	IACCITOL	IPREV HISTORY		
TR SIGNETBRAVA	BB	07/83	\$ 2392			30	4
: 850BB24906	000000000	1	03/89	\$ 2355	M00070	A	
: 1246358004			\$ 0			R	
TR CRESTAR CC	BB	11/84	\$ 2044			30	2
: 850BB23729	000000000	1	03/89	\$ 2017		A	
: 4366061092301			\$ 0			R	
TR MODY CR UN	FC	10/86	\$ 5000			23	1
: 872FC00023	000000000	1	03/89	\$ 3501	M00300	A	
: 3318401			\$ 0			I	
TR LANGLEY	FZ	07/85	\$ 1393			24	1
: 831FZ23059	000000000	1	03/89	\$ 0	M00056	A	
: 1140900000007			\$ 0			I	
TR SEARS	DC	09/76	\$ 1871			17	1
: 906DC00029	000000000	1	02/88	\$ 0		A	
: 8626-7595048201208			\$ 0			R	
TR WARDS	DC	08/83	\$ 886			5	3
: 906DC00136	000000000	1	01/87	\$ 0	M00010	A	
: 10254596590			\$ 0			R	
TR SOVRAN CRE	BB	07/85	\$ 2259			2	4
: 831BB00221	000000000	1	10/86	\$ 0	M00088	A	
: 3714-31559895			\$ 0			I	

ED END OF REPORT

Report #2

* REPORT SELECTED VIA CUSTOMER TABLE *
 CREDIT BUREAU OF FT WALTON BEACH
 711 N EGLIN PARKWAY
 FORT WALTON BEACH, FL 32548
 (904) 862 2134

0000000000000000 00-00

NM- [REDACTED]
 CA- [REDACTED] EGLIN AFB, FL 32542.
 ID-SSS- [REDACTED] AGE 37.

**05

HD 05/16/89 09/14/86 HIT
 NM [REDACTED] D SS# [REDACTED]
 : AGE:37 DOD: TEL. DL#
 CA 111 RR BX [REDACTED]
 : APT VALDOSTA GA 31602
 : SINCE RTFD 06/88
 FA 205 RR BX [REDACTED]
 : DR APT VALDOSTA GA 31602
 : SINCE RTFD 09/86
 IQ 05/16/89 192VC00021 D.I.S. VC
 IQ 12/04/87 826DC00199 SEARS DC

NAME	IKOBIOPEN	H/C	IDLA	MR	IECOA	IPYMT PROF 1	ISTAT1
ID CODE	ICOUNTERS	IMOP	IRPTD	BAL	ITERMS	IID-I	IPYMT PROF 2
ACCT. ##	IBALDT	P/D	IEVAL	IACCITOL	IPREV	HISTORY	

TR SEARS	DC	09/76	\$ 2273	25	1		
: 906DC00029	00000000	1	04/89 \$ 2203	A			
: 8475-7589429520716			\$ 0	R			
TR SEARS	DC	12/87	\$ 961	16	1		
: 906DC00029	00000000	1	04/89 \$ 787	A			
: 8475-7589429521227			\$ 0	R			
TR MHT/MC	BB	07/86	\$ 4000	28	3		
: 426BB00541	00000000	1	03/89 \$ 3653 M00109	A			
: 5217001613249370			\$ 0	R			
: N14 AMOUNT IN H/C COLUMN IS CREDIT LIMIT							

CREDIT BUREAU OF FORT WALTON BEACH
 711 N. GLEN PARKWAY
 FORT WALTON BEACH, FL 32548
 (904) 362-2134

NAME	TRUST/OPEN	H/C	DLA	MR	ECOA	IPYMT	PRF 1	STAT	
ID CODE	COUNTEN	CMOPIRPTD	BAL	TERMS	TTD	1	IPYMT	PRF 2	TYPE
ACCT. #	IBALDT	P/D	TEVAL	ACCITOL	PREV	HISTORY			
TR SIGNET/BEVA	BB	07/83	\$ 2392		30	4			
: 850BB24906	00000000	1	03/89	\$ 2355	M00070	A			
: 1246358004			\$ 0		R				
TR CRESTAR CC	BB	11/84	\$ 2044		30	2			
: 850BB24709	00000000	1	03/89	\$ 2017	A				
: 4366061092301			\$ 0		R				
TR MODY CR DN	FC	10/86	\$ 5000		30	1			
: 872FC00023	00000000	1	03/89	\$ 3501	M00300	A			
: 3318401			\$ 0		1				
TR LANGLEY	FZ	07/85	\$ 1393		24	1			
: 831FZ23059	00000000	1	03/89	\$ 0	M00050	A			
: 1140900000007			\$ 0		1				
TR SEARS	DC	09/76	\$ 1871		17	1			
: 906DC00029	00000000	1	02/88	\$ 0	A				
: 8626-7595048201208			\$ 0		R				
TR WARDS	DC	08/83	\$ 886		5	3			
: 906DC00136	00000000	1	01/87	\$ 0	M00010	A			
: 10264596590			\$ 0		R				
TR SOVRAN CRE	BB	07/85	\$ 2259		2	4			
: 831BB00221	00000000	1	10/86	\$ 0	M00088	A			
: 3714-31559895			\$ 0		1				

ED END OF REPORT

Report #3

CREDIT BUREAU OF VALDOSTA
111 W CENTRAL AVE
VALDOSTA, GA 31601
(912) 243-5680

NAME	FEEDSTOPEN	H/C	DLA	MR	TECOA	IPYMT PROF 1	ISTATI
ID CODE	COUNTERCREDIT	RPTD	BAL	TERMS	IID-I	IPYMT PROF 2	ITYPE
ACCT. ##	IBALDT	P/D	LEVAL	ACCITOLIPREV	HISTORY		
TR CRESTAR CC	BB	11/84	\$ 2044		30	2	
: 850BB23729 00000000	1	03/89	\$ 2017		A		
: 4366061092301			\$ 0		R		
TR MODY CR UN	FC	10/86	\$ 5000		23	1	
: 872FC00023 00000000	1	03/89	\$ 3501	M00300	A		
: 3318401			\$ 0		1		
TR LANGLEY	FZ	07/85	\$ 1393		24	1	
: 831FZ23059 00000000	1	03/89	\$ 0	M00056	A		
: 1140900000007			\$ 0		1		
TR SEARS	DC	09/76	\$ 1871		17	1	
: 906DC00029 00000000	1	02/88	\$ 0		A		
: 8626-7595048201208			\$ 0		R		
TR WARDS	DC	08/83	\$ 886		5	3	
: 906DC00136 00000000	1	01/87	\$ 0	M00010	A		
: 1U254596590			\$ 0		R		
TR SOVRAN CRE	BB	07/85	\$ 2259		2	4	
: 831BB00221 00000000	1	10/86	\$ 0	M00088	A		
: 3714-31559895			\$ 0		1		

ED END OF REPORT

Appendix D
Detailed Descriptions of the Recommendations

Appendix D: Detailed Descriptions of the Recommendations

The primary recommendation is to reduce the number of redundant credit reports that are being purchased by eliminating some or all categories of multiple same-person, same-vendor credit history requests. Two alternative credit report acquisition approaches for dealing with the redundancy problem are also introduced. The decision of whether to implement the primary recommendation or one of its two alternatives will hinge predominately on 1) whether OSD and DIS feel it is critical to secure no less credit information than is currently being received and 2) the extent to which the contractor (CBM) is willing and able to modify its computer software.

In addition to presenting the primary recommendation and two alternatives in this appendix, two secondary recommendations are also offered for consideration. The first pertains to modifying the process that is used to decide which of the three credit vendors should be chosen to secure the credit history of a given clearance candidate. The second relates to augmenting the procedures currently used for storing credit history data.

Primary Recommendation: Elimination of Some or All Categories of Multiple Same-Person, Same-Vendor Credit History Requests

The primary recommendation of this report is to eliminate some or all categories of multiple same-person, same-vendor credit history requests and to utilize some of the savings that result to expand credit checks in certain other segments of the DoD cleared population and to implement certain enhancements to the credit report processing system that would save manpower and speed up the processing of issue cases. Among those cleared segments which should be considered for additional credit checks are 1) people who are being considered for a DoD Secret level clearance that does not already require a credit check, 2) people whose initial credit check failed to disclose any credit information (i.e., conducting second credit checks two to three years later, after their employment with the DoD or one of its contractors has given them more of a chance to obtain and use credit), 3) people holding Secret level clearances who are not already receiving periodic reinvestigations, and 4) people who hold especially sensitive positions or whose background warrants annual or intermediate (e.g., every 2 1/2 years, as opposed to every 5 years) continuing assessment credit checks. Among the labor savings enhancements within the credit report acquisition and analysis system that should be considered are automating certain routine credit related decisions, having the contractor provide the reports of credit (ROCs), and automatically receiving the addresses of creditors when delinquent accounts are identified on credit reports.

There are, however, certain categories of people who definitely should continue to receive multiple credit checks from the same vendor. These categories include individuals who have indicated that at some point during the period under investigation, they 1) changed, formally or informally, both their first and last names or 2) used a different social security number than the one they reported on their personnel security

questionnaire. Without second credit checks that incorporate those variations, it is likely that considerable credit history information on those people would be missed.

The two groups having the highest level of redundancy for same-person, same-vendor credit checks were the ones having multiple addresses. These groups also constituted a majority of multiple same-person, same-vendor credit checks. As illustrated earlier in Table 1, the elimination of more than one credit report from the same vendor for the same person in these categories alone would result in a savings of over 25% of the entire DIS credit report acquisition budget.

There is also strong support for the elimination of same-person, same vendor credit reports when people have formally or informally changed one, but only one, component of their full name during the period under investigation. Most of the credit information obtained when duplicate credit report submissions are made using these individuals' previously used names is either a) redundant, b) dated, or c) void of any significant derogatory information. As illustrated in Table 1, limiting credit reports to one per person from the same vendor for people who used more than one name but only had one address checked for each name would, by itself, result in an additional saving of 8.2% of the DIS credit report acquisition budget.

A separate pilot study was conducted by Barbara Melnick at DIS and Jim Carnaggio at PIC during February 1990 to help assess the impact of eliminating multiple reports from the same vendor in cases involving candidates for DoD security clearances who had changed their name at least once during the period under investigation. Their study was based upon an examination of 89 multiple name credit histories drawn from PIC background investigation cases that included a credit check. CBI was used as a vendor in 72 of those cases, and of those 72 CBI cases, 18 included credit reports that were not redundant with others appearing in the subject's file, and 6 of the 18 yielded in some additional derogatory information. TRW was used as a vendor in 24 of the 89 cases, and of those 24 TRW cases, only one included a report that was not redundant, and it did not yield any additional derogatory information. Trans Union was used as a vendor in 22 of the 89 cases, and of those 22 Trans Union cases, only 2 included a report that was not redundant, and neither of those yielded any additional derogatory information. The sum of cases exceeds 89 when the subtotals by vendor are added together because some of the people had reports from more than one vendor.

How these findings are interpreted will vary from person to person. Some people will focus on the fact that some derogatory information would be missed by completely eliminating multiple same-person, same-vendor credit checks. Others will focus on the potential cost savings and relatively small decrement in detection efficiency that would result from the elimination of this practice. Therefore, it is likely that not all policy-makers will feel it is prudent to adopt the primary recommendation. Two alternatives to that primary recommendation are presented in the paragraphs that follow. Given that laying a proper foundation for these alternatives was not as central to the text as it was for the primary recommendation, additional information regarding the background and potential implications of these alternatives is presented.

Alternate Recommendation # 1: Improved Utilization of the Prior Address Data Fields on the Credit Request Inquiry

Background:

This alternative was implemented in March 1990 by CBM. It reduces redundancy by more efficiently utilizing the prior address fields on the credit request inquiries. The practice the had been employed prior to this modification is analogous to someone repeatedly paying full price for the same item at a store when one could buy one and receive one or two identical items for free.

Each of the vendors permits credit history requesters to provide the subject's current address and up to two prior addresses on the credit request inquiry, which are used to help search for credit information. The total number of addresses that can be submitted in a single inquiry to the vendors is three for TRW and two for both CBI and Trans Union.

Under the system used prior to 21 March 1990, each of the designated addresses that survived an exclusion process was entered as a "current address" on an inquiry request. Often the same address that was listed as a current address on one inquiry was listed as a prior addresses on another for that same person. This practice served no useful purpose, because all of the identifying information associated with that address would have been already taken into consideration by the file search process employed during the prior submission. Hence, resubmitting the same address produced no additional file matches unless the other personal identifiers that were submitted were also changed (e.g., name, social security number, etc.).

Under both the current and prior computer procedures used by CBM the entire list of the designated addresses are first prioritized. Residence addresses are assigned the highest priority, most recent having the highest priority, followed by employment addresses and education addresses, respectively. When more than one address falls under the same service territory of a credit bureau, the highest priority address is listed as the current address and the second highest priority address⁶ is listed as a former address on the inquiry, and any lower priority addresses are excluded from the list of addresses that are submitted on the credit inquiries. For example, if a person lived on X Street in Fargo, North Dakota, worked at a firm on Y Street in Fargo and previously lived at college dormitory located on Z Street in Fargo, and assuming that all three of those locations fell under the territory of the same credit bureau, the X address would be listed the current address, the Y address would be listed as the former address, and the Z address would not be included on any of the credit inquiries. In the sample, 11% (664 out of 6,043) of the originally designated addresses were excluded. Assessing the advantages and disadvantages of excluding lower priority addresses is beyond the scope

⁶Under the system implemented on 21 March 1990 a third address covered by the same credit bureau can also be included when TRW is the vendor.

of this study; however, that practice appears more consistent with the underlying perspective associated with the primary recommendation than it does with the current practice.

Instead of submitting each designated address that survives the exclusion process as a current address, it makes more sense to include as many addresses as possible, entering the top priority address in the current address data field and the second priority address in the prior address data field. In the case of TRW, which allows three addresses to be submitted, the third priority address should be entered in the second prior address data field. This process should be continued on subsequent inquiries with each address only being entered once, either in a current or in a prior address data field, until each of the surviving designated addresses has been entered and submitted. Once again, CBM has indicated that on 21 March 1990 they modified their system to operate in this fashion (see Appendix A).

It is important to note that all three of the current national vendors (i.e., Trans Union, TRW, and CBI) update subject addresses in their credit files using an ENHANCEMENT computer program that relies on data contained on the credit report inquiries that are submitted to them. If the current address listed in the credit file does not match the current address listed on the credit report inquiry, this updating feature changes the address in the credit file to the address noted on the inquiry. All three vendors' enhancement features can be bypassed electronically in the event the user desires to intentionally enter dated information (e.g., every time CBM lists an old address as the current address). Consequently, the current practice of listing prior addresses as the current address may be interjecting error into all three credit history systems, which would be particularly problematic if the correct current address were not listed as such on the last credit inquiry that is submitted. This potential problem also needs to be recognized with respect to this alternative and should be avoided by either a) electronically bypassing the vendor's enhancement feature, b) always listing the actual current address in the current address data field, or c) ensuring that the actual current address is listed in the current address data field on the last inquiry that is submitted.

Simply by more effectively using the current and prior address fields on the credit inquiry request, DIS should now be saving approximately 14.5% of the funds it expends for purchasing credit reports, without losing any derogatory information. Other benefits include having fewer redundant credit reports for case controllers and adjudicators to read, and for PIC to have to transport and store. A comparison of the number of reports necessary to cover the addresses to be checked under both the prior system and under this alternative is presented in Table 5. The estimated savings that should stem from it are presented in Table 6.

Table 5
A Comparison of the Number of Reports

<u># Addresses Checked</u>	<u>Frequency</u>	<u># Reports Current System</u>	<u># Reports Alternative #1</u>
<u>CBI</u>			
1	637	637	637
2	654	924	654
3	181	412	362
4	66	185	132
5	16	55	48
6	4	16	12
7	2	10	8
	Total	<u>2239</u>	<u>1853</u>
<u>CHI</u>			
1	311	311	311
2	202	262	202
3	36	77	36
4	5	12	10
	Total	<u>662</u>	<u>559</u>
<u>TRW</u>			
1	176	176	176
2	110	121	110
3	6	12	6
4	4	9	8
5	2	6	4
	Total	<u>324</u>	<u>304</u>
<u>TU</u>			
1	424	424	424
2	307	385	307
3	40	89	80
4	16	40	32
5	2	7	6
	Total	<u>945</u>	<u>849</u>
<u>ALL VENDORS</u>			
	<u># Reports Current System</u>	<u># Reports Alternative #1</u>	
CBI	2,239	1,853	
CHI	662	559	
TRW	324	304	
TU	945	849	
Total	<u>4,170</u>	<u>3,565</u>	

$$4,170 - 3,565 = 605 \quad 605/4,170 = 14.5\%$$

Table 6
METHOD: Alternative #1
Projected Figures Without Budget Cuts

	# of Credit Reports	# of People (Current Approach)	100% Savings Approach (\$ Savings Possible)	100% Utilization Approach (# of Extra People Possible)
FY 90	600,000	288,462	131,400*	24,664*
FY 91	724,500	348,317	317,331	59,562
FY 92	724,000	348,076	317,112	59,521
FY 93	728,000	350,000	318,864	59,850
FY 94	728,000	350,000	318,864	59,850
4½ YEAR TOTAL			\$1,403,571	263,447

Projected Figures With Budget Cuts

	# of Credit Reports	# of People (Current Approach)	100% Savings Approach (\$ Savings Possible)	100% Utilization Approach (# of Extra People Possible)
FY 90	407,000	195,673	89,133*	16,730*
FY 91	354,000	170,192	155,052	29,103
FY 92	315,500	151,683	138,189	25,938
FY 93	300,000	144,231	131,400	24,664
FY 94	281,000	135,096	123,078	23,101
4½ YEAR TOTAL			\$636,852	119,536

*Given that the changes were implemented in late March,
only savings for ¼ year are reported for FY 90.

Alternative Recommendation #2: Utilization of an Interactive Credit Report Acquisition System

Background:

This alternative is another way to reduce redundant credit reports that stem from multiple submissions to the same vendor for the same person. It accomplishes this objective by using information contained on earlier credit reports that cover these individuals to assess whether any additional credit reports from that vendor are needed for those people. Currently, large numbers of identical credit reports are being secured (and paid for) because multiple same-person, same-vendor submissions are made simultaneously, thereby eliminating the possibility of using any information contained on the returned credit reports to aid in the purchasing decision logic. Alternative #1 is also constrained by that same limitation. In other words, in both of those approaches no credit report information is available to help determine whether or not additional credit reports need to be purchased for a given person.

Description:

As in Alternative #1, the vendor should include as many addresses as possible when submitting inquiries. Under this alternative, however, only one credit report per person should be initially requested by the computer for each vendor selected. The vendor's credit file enhancement/update feature should be bypassed, and the subject's oldest address, followed by the next oldest addresses (until the maximum number of prior addresses permitted by the vendor has been reached), should be submitted on the inquiry to the vendor.

When determining the order in which the addresses are to be submitted on credit inquiries, it might also be beneficial to take into consideration geographical region and/or to submit designated education addresses that have survived the address exclusion process before including the surviving work addresses and residence addresses, respectively. Prior addresses that correspond to a different region of the country from that where a person has more recently resided, and school addresses located in an area away from the subject's hometown, are less likely than other addresses to result in either a match that might contribute to halting the search process or one of the prior addresses being listed on the credit report received from the vendor.

Example 1:

<u>Designated Cities</u>	<u>Dates of Residence/Employment</u>
Fargo, ND	08/60 - 10/75
Atlanta, GA	10/75 - 06/82
Springfield, MA	06/82 - 03/84
Monterey, CA	03/84 - 01/86
Washington, DC	01/86 - present

Condition: Vendor accepts the current address plus 1 former address, and its enhancement feature can be shut off.

Submission: Fargo, ND is listed as the current address and Atlanta is listed as the former address on the first submission.

The information contained on the credit report returned from the vendor should be compared by computer to the original file on the subject containing the addresses and dates to be checked. Additional credit reports should only be purchased if:

- A) Not all the addresses to be checked were listed on the current and prior address section of the credit report (as opposed to the inquiry submitted to the vendor) and if it is possible they might not have been checked given the search strategy used by the vendor (e.g., the addresses listed as either the "current address" or as one of the prior addresses on the credit inquiry would also have been covered by the report).

The following are other criteria which would also serve to further reduce redundancy but might result in occasionally missing some additional information:

- B) Not all the dates corresponding to the designated addresses to be checked were partially covered by the period addressed by the credit report. To meet this requirement, the following two conditions must be met: 1) the last posting date for any trade item appearing on the credit report must be after the "From" date corresponding to the most recent designated address and 2) the second date appearing in the line designated by the characters "HD" on the credit report (i.e., the header record for the main body of the credit report) must precede the "To" date for the address in question. In Example #1, the "From" date corresponding to the most recent designated address is 1/86, and the "To" date for the Fargo, ND address is 10/75. The last posting date for any trade item listed on the credit report presented in appendix B (unrelated to Example #1) is 4/89 and the second date appearing in the line denoted by the characters "HD" is 9/14/86.

- C) The person moved from one service region of the selected vendor to another during the period to be covered, and both criteria A and B have also been met. For example, if Trans Union were selected to check the credit of a person who moved from California to Washington, DC, the resulting report could contain certain trade items from two different Trans Union service regions, so if criteria A and B were also met, another credit report would need to be purchased.

At some point in the future it might also be desirable to add another requirement that must be met before purchasing another report. That requirement would consider the probability of finding another file given the subject's background data (e.g., marital status, length of time employed, age, etc.) for the period not covered, as well as the performance record of the vendor with respect to merging file fragments.

If the requirement(s) associated with this alternative is/are met, then another credit report should be requested by the computer. In that case, the process should return to the vendor selection stage (see secondary recommendation #1) using the addresses that have not been covered by the earlier report(s). If another report is not needed, then the acquisition phase has been completed.

Example 2:

Condition: After submitting the addresses designated in Example 1, a credit report is obtained. Assume that the credit report lists the person's current and former addresses as:

Current: Washington, DC
Former #1: Monterey, CA
Former #2: Springfield, MA

Result: No additional credit inquiries are necessary, because every address to be checked (see designated cities section of Example 1) was either listed on the inquiry address list submitted (see submission section of Example 1) or on the credit report address list that appeared to the credit report that was returned (see list presented above - - Example 2).

Impact of Alternative #2:

In order to help assess the potential impact of this and certain other recommendations presented in this section of the paper, a subsample of 100 subjects was drawn from the main sample, and the proposed changes were applied manually to those cases. Under the current system those 100 subjects had a combined total of 118 names and aliases checked, involving 122 single-address within vendor checks and 33 multiple-address within vendor checks (total = $122 + 33 = 155$), which resulted in total of 203 credit reports being requested. Under this alternative, 155 initial requests would

have been submitted. All allowable address fields on the inquiries to the vendor (current address and the maximum number of prior addresses permitted by the system) would also be utilized. In all but 6 of those 155 cases, all of the subjects' addresses that needed to be checked either 1) would have been listed on the original inquiry submitted to the vendor or 2) were listed as one of the current or former addresses on the actual credit report that was received. The total number of credit reports that would have been needed using this alternative and the current vendor selection system is 162 (five of the aforementioned six cases would have only required one additional submission and the other case only two). This represents a 20.19% decrease in the number of credit reports compared to the number that was actually purchased. Consequently, if tangible proof is needed that a person's credit history was checked for periods that at least partially covered when a person lived at certain addresses, this alternative would be a more economical method than the current system of accomplishing that objective.

The proposed multi-step inquiry submission modification would require substantial alterations to the software (and perhaps hardware) utilized by the contractor's computer system. As previously noted, CBM was willing to alter its system to take greater advantage of the number of prior addresses allowed by the vendor. Whether CBM would also be willing to make the more substantial changes necessary for an interactive credit inquiry system to be constructed and whether they would charge DIS directly or indirectly for those changes is not known.

Secondary Recommendation #1 Selecting the Vendor

Background:

Currently, CBM (a subsidiary of Equifax) purchases most of its credit reports from CBI (also a subsidiary of Equifax). One reason for CBM's extensive use of CBI may be price. Contractor reports at PIC indicate that CBI charges CBM approximately \$.40 less per credit report than their competitors charge. It is unclear whether some of those savings are passed along to DIS in the form of a lower initial contract bid.

The primary reason for selecting one of the three national credit vendors (CBI, TRW, and Trans Union) over another should be that each has geographical areas of strength (and weakness) compared to its competition. Areas of strength can be defined as those locations where a given vendor has the largest market share (i.e., number of clients, number of persons covered, etc.) of the trade emanating from the local credit grantors who supply the vendor's affiliated bureaus with data concerning the credit use and repayment behaviors of their respective credit-using customers. Each of the three vendors regularly prepares a list noting its own and its competition's areas of strength by zip code. Not surprisingly, it appears that each of these lists is biased to some degree toward the vendor who prepared it. However, by comparing the three lists it is possible to triangulate each vendor's level of relative strength by zip code. Based on an analysis of the vendors that CBM selected last May (by subject's zip code), it appears that in a few areas (e.g., those whose first 3 digits of the zip code begin 007-009, 440-

443, 730-744, 781-798, and 840-935) CBM might be using CBI in locations where its competitors are stronger. Thus, it is possible that more derogatory credit information could be secured by altering the method by which the vendor is selected.

Under the current credit report acquisition system the strongest vendor for each address is supposed to be selected. Instead of considering each address for a person individually, however, it might be preferable to consider them collectively and select the vendors on the basis of which could provide the desired level of coverage the most economically for that person.

Recommendation:

PERSEREC and the Defense Manpower Data Center (DMDC), independent of CBM, should continue to analyze the lists of alleged areas of relative strength supplied by the vendors and periodically prepare a list ranking the relative strength of the vendors by zip code. The contractor should also develop a similar list based upon information that they acquire from the vendors. The vendor selection decisions made by the contractor should be monitored periodically. In situations where the contractor has utilized a vendor that does not appear to have been the best choice based upon the PERSEREC/DMDC list, they should be asked to justify those actions.

On the geographical strength lists prepared by the contractor and by PERSEREC/DMDC, areas in which credit vendors only have autofile coverage (no local service) should be assigned a rank of "3" (1 = best coverage, 3 = worst coverage) even if two of the vendors only have autofile file coverage for that area (i.e., both vendors would be ranked "3"). A more demanding variation would be to assign values of "3" to any vendor that does not claim to have primary coverage in a particular area. It should be noted that in a large number of areas all three vendors claim to have primary coverage.

All of the addresses to be checked, as well as their corresponding dates, should be entered into the system for processing. CBM should use the prepared list of three digit zip code ranks in concert with the following decision rules for selecting which national credit vendor to use for a given person:

- A) No vendors ranked "3" should be selected to provide coverage for any of the individual subject's addresses to be checked.
- B) The lowest number of vendors needed to cover all of the addresses submitted for that person should be used (after meeting criterion A).

- C) The vendor with the lowest sum of ranks (i.e., best coverage for those areas) should be selected for the address segments to be covered. In the event of a tie, the vendor charging the lowest rate should be selected. If there is no difference in price, the vendor should be selected at random⁶.

Example 3:

<u>Cities and zip codes to be checked</u>		<u>Ranks</u>		
		<u>TRW</u>	<u>CBI</u>	<u>TU</u>
Fargo, ND	58103	3	1	2
Atlanta, GA	30318	1½	1½	3
Springfield, MA	01129	1	2	3
Monterey, CA	93940	2½	1	2½
Washington, DC	20011	2½	1	2½

Result: Only one report is needed in this case, because there are no ranks of three appearing under CBI. A request for a CBI credit report on that subject would be made.

Impact of the recommendation:

As previously noted, in order to help assess the potential impact of certain recommendations presented in this section, a random sample of cases was drawn from the main sample and the proposed changes were applied manually to those cases. The subsample was comprised of 100 subjects. Under the current system those 100 subjects had a combined total of 118 names and aliases checked which resulted in total of 203 credit reports being requested. However, by following the recommendations of a) requesting separate credit reports for aliases only when both the first and last name have been changed, b) requesting only one credit report per vendor for each person (except in cases where there was a complete name change), and c) considering the addresses collectively and selecting the vendor(s) using the procedure described in this section, the 100 subjects had a combined total of 101 names that need to be checked resulting in a total of 102 credit reports that would have been requested. Hence, an approximately 50% cost savings would be achieved if all three of these recommendations were implemented.

⁶If the addresses to be covered by the tied vendor pertain to only one three digit-zip code location, the number of trade items obtained should be copied and stored by zip code and vendor for later internal vendor strength comparisons.

If this recommendation were implemented the potential impact of Alternative #2 would also be enhanced. The reason for its enhanced impact on that particular alternative is that this recommendation would result in fewer vendors being used per person. Consequently, more addresses would need to be covered per vendor, and next to limiting the number of reports to one per person per vendor, the interactive approach would be the most efficient way of covering those addresses. When Alternative #2 was manually applied in concert with this recommendation, in all but 10 of those 102 cases, all of the subjects' addresses that needed to be checked either 1) would have been listed on the original inquiry submitted to the vendor or 2) were listed as one of the current or former addresses on the actual credit report that was received. The estimated total number of credit reports that would have been needed using Alternative #2 in concert with the proposed modification to the vendor selection system is 112. This represents a 44.83% decrease in the number of credit reports compared to the number that was actually purchased.

The findings presented in Table 3 in the results section indicate that some derogatory information would be missed if credit reports were obtained from fewer different vendors. In the full sample, 19% of the second credit reports obtained from a vendor other than the one that supplied the first report disclosed some additional derogatory information. Although this figure is lower than the rate of 33% attained for individual credit reports disclosing some derogatory information, it is much higher than the rate of 3% additional derogatory information found when the same vendor supplied both reports. It should be noted, however, that most of the derogatory information discovered by second credit reports acquired from a different vendor was minor in nature. In addition, using the present data set, it is impossible to forecast how much less additional derogatory information would result if the first vendor were selected using the proposed vendor selection method. The reason it is safe to assume that significantly less than 19% additional derogatory information would be found is that the proposed method is specifically designed to maximize the likely amount of information obtained from each report purchased. Consequently, more derogatory information typically would be reported on the first credit report obtained and less previously undisclosed derogatory information would be found in all subsequent credit reports. Furthermore, if the vendor selection criteria that are implemented require that chosen vendor(s) maintain primary coverage in all locations to be covered by their report, it would be unlikely that critical issues like bankruptcies would fail to be detected.

Secondary Recommendation #2: Transmission of Data to PIC and Tape Storage

Recommendation:

Under the current system, after the subject's credit file is complete, the contractor submits hard copies of the credit reports to PIC. It is recommended that in the future an electronic copy of the report(s) also be submitted to PIC, and that the data associated with those reports along with the initial subject identifiers, addresses and dates that were entered by the contractor at the beginning of the credit report acquisition process be

copied to tape for storage at DMDC. Those tapes would be used for future credit research conducted by both DMDC and PERSEREC personnel, as well as for certain operational purposes.

Impact of the recommendation:

The desired data would enable a considerable amount of research to be conducted. In addition to discovering ways to increase the efficiency and effectiveness of the DIS credit report acquisition process, it would greatly facilitate research intended to improve personnel security applications involving financial and credit information. At the present time only credit reports containing a significant amount of derogatory information are archived, and they are preserved on microfilm at PIC. This practice severely limits the amount of useful data that are economically available to researchers, as well as to the investigators and adjudicators who are involved in subsequent background investigations of people whose credit history was earlier obtained by DIS. In addition, if that archived data are to be analyzed by computer, it requires manual entry of the data.

The storage of the data on tape is inexpensive. Approximately 8000 credit reports can be stored on a single 2400 ft 9 track 6250 bpi tape. A blank 2400 foot tape currently costs approximately \$10. DMDC has already agreed to maintain these tapes as part of their tape library. Thus, tape costs would be approximately \$1000/year (assuming 2 credit reports/person and 400,000 people/year).